



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
Attorney Conference Room
3939 N. Drinkwater Blvd
Scottsdale, AZ 85251
JANUARY 7, 2008**

PRESENT: Jim Lane, Committee Chairman
Wayne Ecton, Committee Member
Ron McCullagh, Committee Member

STAFF: Cheryl Dreska, City Auditor
Kyla Anderson, Audit Associate
Joyce Gilbride, Assistant City Auditor
Richard Chess, Accounting & Tax Audit Director
Paul Norman, Assistant City Attorney
Deborah Robberson, City Attorney
Lisa Gurtler, Assistant City Auditor
Joanna Munar, Auditor
Jim Flanagan, Purchasing Manager
Carolyn Jagger, City Clerk
Craig Clifford, Financial Services General Manager
Kim Prendergast, Senior Auditor
Helen Gandara-Zavala, SPD Administrative Services Director
Steve Garrett, SPD Crime Lab Manager

OTHER: Brian Powell, East Valley Tribune

CALL TO ORDER/ROLL CALL

Chairman Lane called the Audit Committee meeting to order at 2:32 p.m. Roll call was taken confirming the presence of all Committee Members.

MINUTES - Approval of Nov 20, 2007 Committee Meeting Minutes

Committee Member Ecton made a motion to approve the November 20, 2007 minutes. Committee Member Lane seconded the motion. The minutes were approved by a unanimous vote of three (3) to zero (0).

GENERAL BUSINESS

Agenda Item 1 Discussion on draft report - Procurement Card Program

City Auditor Cheryl Dreska discussed the scope of the Procurement Card Program audit, and Auditor Joanna Munar presented the results. Ms. Munar stated 29 cardholder transaction logs were tested encompassing 181 transactions, and no material exceptions were found. She stated control activities are working as intended. The transaction log reviews included appropriate signatures and dates, supporting documentation, and timeliness of submission.

**Agenda Item 2 Discussion on draft report - Public Notices and Agendas,
Legal Publications and Minutes**

Ms. Dreska stated this report presents the preliminary survey work done on compliance with Arizona's Open Meeting Law. The audit was terminated at the end of the preliminary survey.

Ms. Dreska pointed out City procedures to ensure compliance with ADA requirements were not tested, and the list of committees, subcommittees, and advisory committees posted on the City's website were not verified. Other items not tested were the adequacy of notices and activities governing compliance for executive sessions.

Assistant City Auditor Lisa Gurtler reported this audit was terminated due to a favorable control environment. In addition, there have been numerous recent revisions to the applicable administrative regulations, which put stricter requirements on committees and subcommittees, as well as procedural changes mandated by internal changes. As a result there is no action plan, and a future audit is recommended once staff has had time to assimilate these changes.

Chairman Lane clarified this audit was terminated on the basis of good controls, and asked for more information regarding a future audit. Specifically, if the scope of the audit would include testing of the implementation of new laws, rather than emphasizing enforcement. Ms. Gurtler agreed a future audit would include testing the implementation of the new laws and procedures.

**Agenda Item 3 Presentation of an update prepared by staff from the City's
Police Department on the status of actions taken in response
to audit report #0401 Police Department Property Room
Audit**

Ms. Dreska reviewed the 2004 audit findings on the Police Department Property Room, indicating there were 29 areas of recommendation in the initial Property Room audit. 28 of those items have been cleared, and the remaining issue deals with the segregation of property. Due to space restrictions, this item cannot be resolved until the move to the new property room. A new records management system implemented in April of 2007 uses a bar coding system that allows all property to be tracked. All miscellaneous found property has been disposed of, and they are in compliance with City Code provisions on disposal of firearms. A process is in place to track and review the property invoices for disposal on a timely basis. Given that, a follow-up audit in 2008 is not recommended. Ms. Dreska suggested a follow-up audit in 2009 to coincide with the move to the new Property Room in order to validate controls over the property as it is being moved from one location to the other.

Committee Member Ecton asked for clarification on Item 13, where it addresses training affected units as necessary to ensure applicable procedures and policies are being followed. Crime Lab Manager Steve Garrett stated all affected employees will be trained. Ms. Dreska indicated that could be verified with a follow-up audit.

Committee Member McCullagh asked for the anticipated completion date of the new Property Room. Mr. Garrett replied the move-in date is scheduled for August 2009.

Chairman Lane asked if the unresolved issue of segregating evidentiary property from found and prisoner property affects the return of these items to the proper owners. Mr. Garrett stated all of this property is currently combined, resulting in all property being treated as evidence. He indicated this process does affect the return of prisoner property as it is moved to an off-site location, requiring a 24-hour notice to retrieve it.

Chairman Lane asked about disposal procedures, in particular, disposal of items where an owner cannot be located. Mr. Garrett explained all items in that case are published in the newspaper. If there is no response, the item is disposed of according to policy.

Chairman Lane asked how firearms are disposed of. Mr. Garrett said the owner must prove they have a legal right to own firearms via a criminal history check or court order. Firearms are destroyed if they cannot be returned to the owner.

At the request of Chairman Lane, Ms. Dreska clarified that although the timing is right for a follow-up to verify the required actions have been taken she is not recommending follow-up this year. She recommends the City Auditor's Office be involved in the property move in 2009 to audit the issue of property segregation, as well as control of the property between the facilities. It would not be appropriate to audit the Property Room in both 2008 and 2009.

Committee Member Ecton stated he does not think this audit should be repeated in 2008. He indicated Code Enforcement is a separate issue for 2008, and there is no conflict.

**Agenda Item 4 Discussion on the proposed 2008 Audit Plan submitted by
the City Auditor for review and recommendation of the Audit
Committee**

Ms. Dreska presented the revised proposed 2008 Audit Plan to the Committee. She discussed the revisions, indicating items have been added and reordered according to priority and available staffing.

Ms. Dreska stated Item 2 has been added to address the collection, tracking, and use of in-lieu parking fees. The scope of this audit would examine the process, including required policies and procedures for setting fees, approving use of in-lieu parking spaces to satisfy parking requirements, collection of fees, payments, and tracking of funds.

Ms. Dreska indicated Item 5 has also been added to verify compliance of valet parking services with Article 17 of the City Code. Committee Member McCullagh stated Council will be revisiting this issue in the near future, and suggested an audit not be initiated until after that issue is decided.

Committee Member McCullagh asked for clarification regarding auditing in-lieu parking fees. Ms. Dreska indicated the audit would verify if the rules set in City Code were being followed. Committee Member McCullagh asked if leased spaces will be addressed, or if this audit will encompass only spaces that are purchased. Ms. Dreska indicated only purchased spaces are considered in-lieu parking. Committee Member McCullagh suggested the availability and use of leased spaces should be addressed also. Ms. Dreska said that will be considered when developing the scope of this audit.

Committee Member McCullagh asked if the scope of the valet parking audit will encompass whether the valet companies are complying with ordinances. Ms. Dreska indicated the audit will include whether the application process conforms to City Code, as well as who is responsible for enforcement and if there are applicable policies and procedures in place. Committee Member McCullagh stated there is a combination of regulatory responsibility between the Police Department and Code Enforcement.

Committee Member Ecton stated that to his knowledge no audit has ever been performed on leased spaces, and an audit would be appropriate at this time. He asked if there is a balance in the in-lieu parking account. Craig Clifford, Financial Services General Manager, said there is not currently a balance, that all funds have been channeled into a capital project related to a downtown parking garage.

The Committee discussed in-lieu and leased space parking fees and where the funds are allocated. Chairman Lane suggested that should be part of the audit to ensure it is being monitored and used for Council-approved projects.

Ms. Dreska indicated Item 16 has also been added, tracking of special programs, to track dedicated funding sources and donations earmarked for specific purposes. She suggested an audit due to the number of programs within one particular classification. She stated there are approximately 25 smaller programs in the Special Program Fund. Ms. Dreska said making sure controls are in place would be the first priority. Committee Member McCullagh suggested limiting the scope of this audit to include auditing a sampling of those programs. Chairman Lane asked what exposure would result from lack of proper controls. Ms. Dreska stated dedicated revenue could be spent for a purpose which was not intended.

Mr. Clifford stated this is one of the funds within the City's financials and part of the overall scope of the financial audit. Individual cost centers have been set up for each of these programs within the Special Revenue Fund. External auditors would not address issues with the programs, and an internal audit would be appropriate; however, external auditors do look at these programs on a fund level. Ms. Dreska stated this audit would not be looking at this at the fund level; however, appropriate, legal use of the funds should be audited. Ms. Dreska suggested a preliminary survey be completed to determine if this is something already covered by the external auditors, and whether appropriate controls are in place.

Committee Member McCullagh asked if all of the audits listed on the proposed 2008 Audit Plan are new. Ms. Dreska stated Items 1, 3, 6, 7, 8, 9, 10, 11, 14, 17, and 20 appear on last year's list. Committee Member McCullagh asked how many incomplete audits are currently underway, Ms. Dreska reviewed these items and where each currently stands in the process.

Ms. Dreska stated the proposed 2008 Audit Plan would require approximately 10,000 hours, equaling approximately 75% of available hours. Chairman Lane asked for an estimate of hours required for outstanding audits. Ms. Dreska stated they can be completed with the 2,500 hours dedicated to admin. A strict training calendar has been implemented to keep admin time down in order to complete the dedicated audit work.

Chairman Lane asked if the items in the proposed 2008 Audit Plan are numbered according to priority. Ms. Dreska indicated that they are, with the exception of not conducting the valet audit until after any changes are implemented.

Committee Member McCullagh suggested making current incomplete audits a priority, as well as placing any items not addressed from last year's list at the top of the list. Ms. Dreska said the timing of staff availability must be considered when prioritizing audit projects. Ten or 11 audits were completed last year, and standard internal audits were removed from the 2008 proposed Audit Plan to facilitate completion of this plan. Committee Member McCullagh asked if any incomplete audits from the 2007 Audit Plan are not on the 2008 plan. Ms. Dreska indicated there are approximately two items from the 2007 plan that have not been added to the proposed 2008 plan.

Mr. Chess asked if tentative start and completion dates can be added to the proposed plan. Chairman Lane stated the scope of audits can change, therefore that is difficult to do. Ms. Dreska stated it can be broken into quarters with estimated start dates by month. Mr. Clifford indicated that would assist the Financial Services Department's workload management. Ms. Dreska said there are sometimes unforeseeable occurrences that affect the completion dates of audits; however, the Auditor's Office is also working on processes to reduce the impact of audits on the Financial Services Department.

In regard to Item 9, Committee Member Ecton expressed concern regarding expanding the audit to include how victim services are being applied and whether they are appropriate or not, stating that may require expertise the Auditor's Office does not have. He asked that item be brought back after Ms. Dreska researches whether resources are available to address that.

Committee Member Ecton asked for clarification regarding Item 13, specifically, the language regarding the preparation of legal documents. Ms. Dreska stated the audit will not test the actual documents, but whether there is a process in place after the document is completed.

Committee Member Ecton stated he has similar concerns regarding Item 14, the use of CM @ Risk. Ms. Dreska indicated this audit has been assigned a high number of hours due to that very fact; however, she said she believes there should be a process in place to evaluate whether traditional construction processes versus CM @ Risk should be used.

Committee Member Ecton asked for clarification regarding Item 15, whether real estate is put to the best use. He expressed concern regarding whether the Auditor's Office can make that decision. Ms. Dreska clarified the Auditor's Office will not be recommending how real estate is used; rather, whether there is a process in place for tracking properties in inventory, and if any leases in place are being monitored.

Committee Member Ecton asked what will be audited in regard to Item 19, off-duty police assignments. Ms. Dreska clarified it will be testing to determine whether the Police Department has a process in place, and if that process is being followed.

Committee Member McCullagh suggested removing Items 13, 15, 16, and 20 from the proposed 2008 Audit Plan. Committee Member Ecton asked that Item 19 also be deleted, stating it is important to create a list of projects that can be completed within the allotted timeframe. Chairman Lane suggested changing the priority and/or status of some of the items rather than deleting them. Ms. Dreska indicated this list represents three audits per staff person, which should be achievable. She indicated she does not recommend removing any of the items, stating ongoing efforts have been made to balance the audits throughout the City. Committee Member Ecton said this decision does not have to be made today and the Committee agreed Ms. Dreska should research the impact of removing any items and bring those results back for further discussion.

Agenda Item 5 Update by City Auditor on status of current projects

Committee Member McCullagh asked Ms. Dreska to provide the Committee with a list of last year's audit items and their status. Ms. Dreska stated she will provide that information at the next meeting.

Agenda Item 6 Discussion on the role of the Audit Committee in the annual review process for the City Auditor as outlined in Scottsdale Revised Code Section 2-122; possible action

Ms. Dreska provided the Committee with a copy of the applicable code. Chairman Lane stated this is a determination of a recommendation for compensation, as opposed to an evaluation. Committee Member Ecton said he was not comfortable with setting salaries differently from other charter officers. Chairman Lane stated the Revised Code vests the Audit Committee with this obligation as far as compensation for the City Auditor.

Committee Member McCullagh made a motion to refer the City Auditor's annual review to City Council for the same process as other charter officers. Committee Member Ecton seconded the motion. The motion was approved by a unanimous vote of three (3) to zero (0).

PUBLIC COMMENTS - None

COMMITTEE COMMENTS

Chairman Lane asked for an update on the status of unpaid utility bills discussed at a previous meeting. Ms. Dreska apologized for not having that information, and stated she would follow up with each Committee Member regarding that issue.

Ms. Dreska asked if the Committee wished to revisit the issue of the chairmanship of the Committee, or if they preferred to leave it as is. She clarified that the City Code does not address this issue, and asked if the item should be agendaized. Committee Member Ecton suggested this issue be revisited after the Mayor appoints future committee members.

ADJOURNMENT

With no further business to discuss, the Audit Committee meeting was adjourned at 4:15 p.m.